

Message Text

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EXDIS - ALSO FOR OECD AND EMBASSY

E.O. 11652: GDS

TAGS:EFIN, IMF, TU

SUBJECT:FINANCE MINISTER MEETING WITH DEPUTY SECRETARY

REF: STATE 208533

1. TURKISH FINANCE MINISTER MUEZZINOGLU MET WITH DEPUTY
SECRETARY(WHO WAS ALSO ACTING SECRETARY) CHRISTOPHER ON
APRIL 16 AT 5:00 PM. ACCOMPANYING THE MINISTER WERE MFA
SECGEN ELEKDAG, AMBASSADOR ESENBEL AND UNDERSECRETARY OF THE
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MINISTRY OF FINANCE GUCAVAS. OTHER US OFFICIALS PRESENT
WERE UNDER SECRETARY (E) COOPER, COUNSELOR NIMETZ, ASSIST-
ANT SECRETARY OF TREASURY FOR INTERNATIONAL AFFAIRS BERGSTEN,
DEPUTY ASSISTANT SECRETARY (EB) MEISSNER, AND OFFICERS FROM
D AND EUR/SE.

2. AFTER A CORDIAL EXCHANGE OF GREETINGS, MUEZZINOGLU PRE-

SENTED A SUMMARY OF TURKEY'S VIEW OF THEIR PROBLEM WITH THE IMF. HE PREFACED THIS BY CITING PM ECEVIT'S DESIRE TO BROADEN THE US-TURKEY RELATIONSHIP TO INCLUDE COOPERATION IN ECONOMIC MATTERS AND IN JOINT DEFENSE PRODUCTION. HE ALSO SUGGESTED SOCIAL AND ECONOMIC TURMOIL WOULD IMPEDE TURKEY'S ABILITY TO MAINTAIN HER DEFENSE POSTURE AND THAT WESTERN POWERS SHOULD SUPPORT TURKEY ECONOMICALLY, IF THEY EXPECTED TURKEY TO REMAIN A WESTERN DEMOCRATIC NATION. IN HIS PRESENTATION ON THE ECONOMIC ISSUE, MUEZZINOGLU EMPHASIZED THE DIFFICULT AND UNPOPULAR MEASURES THE ECEVIT GOVERNMENT HAS TAKEN OR WILL TAKE. HE CITED THE COMPREHENSIVE TAX REFORM NOW BEFORE PARLIAMENT AND SAID ECEVIT'S PARTY, THE RPP, IS ATTEMPTING TO ARRANGE A SPECIAL SESSION OF PARLIAMENT; THE TIGHT BUDGET AND IMPROVED FINANCIAL PERFORMANCE OF STATE ECONOMIC ENTERPRISES; THE PENDING DECISION TO RAISE PRICES OF PETROLEUM PRODUCTS; AND THE "SOCIAL CONTRACT" WITH THE LABOR UNION, TURK-IS. HE ARGUED THAT THE INITIAL RESPONSES FROM THE ECONOMY WERE FAVORABLE, CITING DEVELOPMENTS ON EXPORTS, WHOLESALE PRICES, AND THE BALANCE OF PAYMENTS. HE ARGUED THAT THE IMF WAS SEEKING A PREMATURE REVIEW OF THE ECONOMY, AND THE REAL PROBLEM LAY NOT IN TURKISH PERFORMANCE BUT IN THE ABSENCE OF THE EXTERNAL CREDITS ENVISIONED IN STANDBY AGREEMENT. HE ARGUED THAT SHORTAGE OF CREDITS IMPEDES PRODUCTION AND HENCE EXPORTS, AND ALSO ALLUDED TO NEED FOR INPUTS FOR AGRICULTURAL SECTOR FOR NEXT CROP YEAR. HE BLAMED THE PRIVATE BANKS FOR THE DELAY IN NEW CREDITS, AND

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CONCLUDED BY URGING USG SUPPORT TO PERSUADE IMF NOT TO BE HASTY IN DEMANDING A REVIEW OR CHANGES IN THE STABILIZATION PROGRAM; USG SUPPORT TO ENCOURAGE BANKS TO ACT SWIFTLY ON NEW CREDITS; SUPPORT IN B.I.S. WHERE TURKEY IS ATTEMPTING TO ARRANGE A LOAN; AND SUPPORT IN TURKEY'S RELATIONS WITH OTHER COUNTRIES (ONLY JAPAN MENTIONED BY NAME).

3. DEPSEC RESPONDED THAT A SOUND TURKISH ECONOMY IS ESSENTIAL IF TURKEY IS TO PLAY THE ROLE IN NATO AND IN THE EASTERN MEDITERRANEAN THAT THE TWO GOVERNMENTS DESIRE. WE WISH TO BE AS HELPFUL AS WE CAN, AS WE DEMONSTRATED WHEN WE ASKED CONGRESS BY DOLS 50 MILLION IN SSA FOR FY 79. HOWEVER, THE INDEPENDENCE OF THE IMF AND INTEGRITY OF ITS FINANCIAL JUDGEMENTS ARE ESSENTIAL TO ITS ROLE. WE CAN ONLY URGE THE IMF TO LOOK AT PROBLEMS IN THE MOST SYMPATHETIC, OPEN-MINDED WAY POSSIBLE. WE CANNOT ADVISE OR INFLUENCE THEM ON THIRD COUNTRY MATTERS. IN THIS CONTEXT, DEPSEC REPORTED HE HAD TALKED WITH ACTING IMF DIRECTOR DALE EARLIER IN THE DAY AND TO IBRD PRESIDENT MCNAMARA TO URGE THAT THEIR INSTITUTIONS LOOK AT TURKEY IN THE MOST SYMPATHETIC LIGHT, AND NOT BE HASTY IN DECISIONS. HE NOTED THAT UNDER SECRETARY COOPER AND HIGH TREASURY OFFICIALS HAD

TALKED TO IMF OFFICIALS ALONG THE SAME LINES. DEPSEC WELCOMED ANY TURKISH SUGGESTIONS AS TO HOW ELSE WE COULD BE HELPFUL, GIVEN THE BASIC CONSTRAINT OF THE INDEPENDENCE OF THE FUND. HE THEN ASKED COOPER TO REPORT ON HIS TALKS WITH THE BANKS, NOTING THAT WE HAVE VERY LITTLE INFLUENCE ON THEIR LENDING DECISIONS.

4. COOPER HAD TALKED TO OFFICIALS OF TWO NEW YORK BANKS INVOLVED IN THE REFINANCING OPERATION. HE REPORTED THEY STILL FELT THE LONG TERM PROSPECTS WERE GOOD AND WERE READY

TO PROCEED WITH THE REFINANCING PROVIDED VIRTUALLY ALL OF THE 200 PLUS CREDITOR BANKS WOULD CONCUR, AND PROVIDED TURKEY REMAINED IN COMPLIANCE WITH THE STANDBY AGREEMENT. HE
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INDICATED THE BANKS WERE LESS CONCERNED WITH ANY PARTICULAR OBLIGATION UNDER THE STANDBY THAN WITH A DEMONSTRATION OF A CONTINUED SERIOUS GOT INTENTION TO DEAL WITH THE STABILIZATION PROCESS. ALTERNATE MEASURES TO ADJUST TO CHANGING CIRCUMSTANCES WOULD NOT DISTURB THE BANKS. COOPER NOTED THAT THE BANKS INDICATED THE REFINANCING WAS ON TRACK, WITH PART OF THE DELAY DUE TO PROBLEMS IN GETTING RELEVANT INFORMATION FROM TURKISH AUTHORITIES. THE ASSESSMENT BEING DONE BY THE THREE MERCHANT BANKING FIRMS WILL ALSO SLIGHTLY DELAY MATTERS, ALTHOUGH THIS IS A USEFUL SURVEY AND THE MERCHANT BANKS ASSUMPTION OF AN ADVISORY ROLE WILL RESOLVE A POTENTIAL CONFLICT OF INTEREST FOR THE COMMERCIAL BANKS.

5. COOPER REPORTED THE BANKS INDICATED THAT NEW CREDITS WOULD TAKE MORE TIME. THEY WOULD ATTEMPT TO PUT TOGETHER A CONSORTIUM WHICH COULD RAISE DOLS 300-500 MILLION IN THE EURO-MARKETS. THE EXACT AMOUNT AND THE TERMS WOULD HAVE TO BE DETERMINED IN THE MARKET. ONE BANK HAD SUGGESTED THAT A MECHANISM WAS NEEDED TO ASSURE THAT NEW CREDITS WERE NOT ABSORBED BY OUTSTANDING SUPPLIER CREDIT OBLIGATIONS. COOPER SAID THE BANKS BELIEVE A FURTHER CHANGE IN THE EXCHANGE RATE IS DESIRABLE, IN THE ABSENCE OF OTHER MEASURES OF EQUIVALENT IMPACT. THEY CITED THE EROSION OF COMPETITIVENESS, INCLUDING THE SUBSTANTIAL WAGE INCREASE WHICH WAS NOT FACTORED INTO THE CALCULATIONS ON WHICH THE MARCH 1 DEVALUATION WAS BASED, AND THE WORKER REMITTANCES PROBLEM, AND PARALLEL MARKET RATES. MUEZZINOGLU CHALLENGED THE LAST POINT, TO THE EFFECT THAT THE PARALLEL RATE FOR THE TL IS CURRENTLY 26 TO ONE, ALMOST THE SAME AS THE OFFICIAL RATE. COOPER INDICATED THE BANKS TEND TO AGREE WITH THE TURKISH POSITION THAT EXPORTS MAY BE AS MUCH SUPPLY-CONSTRAINED AS DEMAND-CONSTRAINED. HE CONCLUDED BY SAYING THE BANKS ARE NOT QUITE CONVINCED THAT EITHER ALL THE MEASURES NEEDED TO TURN THE
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ECONOMIC SITUATION AROUND ARE IN PLACE OR THE GOT IS FULLY COMMITTED TO TAKE THE MEASURES.

6. BERGSTEN EXPRESSED TREASURY DEPARTMENT'S CONCURRENCE WITH THE POSITION ENUNCIATED BY MR. CHRISTOPHER. HE ALSO CONVEYED SECRETARY BLUMENTHAL'S REGRET THAT HIS SCHEDULE DID NOT PERMIT A MEETING WITH MUEZZINOGLU.

7. MUEZZINOGLU REPEATED THE GOT'S VIEW THAT THE STABILIZATION PROGRAM WAS BEING IMPLEMENTED, AND THE IMF AND THE PRIVATE BANKS SHOULD SUPPORT TURKEY'S EFFORTS. HE CRITICIZED THE BANKS FOR NOT PROVIDING THE DOLS 500 MILLION IN NEW CREDITS THEY HAD PROMISED FIRST FOR JULY, THEN

SEPTEMBER, AND WAS NOW PROMISED FOR OCTOBER-NOVEMBER. HE NOTED THE AMOUNT WAS DECLINING ALSO. COOPER INTERCEDED THAT THE BANKS TOLD HIM THEY WOULD ATTEMPT TO RAISE THE FUNDS IN THE EUROPEAN MONEY MARKETS, AND IT WAS NOT NORMALLY BANK PRACTICE TO PROMISE DELIVERY OF LARGE SUMS. HE CAUTIONED MUEZZINOGLU ABOUT FEELING A COMMITMENT HAD BEEN MADE AND BROKEN. MUEZZINOGLU REPEATED THE GOT VIEW THAT THE IMF ATTITUDE IS DIFFICULT TO UNDERSTAND SINCE THE GOT IS FULLY IMPLEMENTING ITS PROGRAM AND THE CONSTRAINT IS THE LACK OF IMPORTED RAW MATERIALS AND INDUSTRIAL IMPORTS.

8. MUEZZINOGLU REPEATED HIS REQUEST FOR USG ASSISTANCE TO CONVINCE THE IMF OF TURKEY'S CASE. GUCSAVAS SAID THE IMF HAD PUT DOLS 450 MILLION INTO TURKEY IN RECENT YEARS WHILE "IRRESPONSIBLE" POLICIES WERE BEING PURSUED, AND THUS HAD NOT DONE ITS JOB, BUT NOW WAS WILLING TO WAIT ONLY THREE MONTHS WITH THE PRESENT STABILIZATION PROGRAM.

9. DEPSEC SUGGESTED THESE ISSUES COULD NOT BE RESOLVED IN THIS MEETING, AND OFFERED AN OUTSIDER'S PERSPECTIVE. HE SUGGESTED THE FUND WAS LESS CONCERNED ABOUT THE PERFORMANCE OF THE ECONOMY THAN BY THE ABSENCE OF STEPS THEY BELIEVED
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WERE TO BE TAKEN. THE TWO SIDES SHOULD DISCUSS FUTURE STEPS TO BE TAKEN. HE THEN ASKED IF MUEZZINOGLU WOULD GO TO NEW YORK TO SEE THE BANKS, TO WHICH A NONCOMMITAL REPLY WAS MADE, AND REPEATED OUR DESIRE TO BE OF ASSISTANCE IN APPROPRIATE WAYS. WE HAD TRIED TO IMPROVE THE CLIMATE FOR TURKEY WITH THE FUND AND WERE HOPEFUL THE TWO SIDES COULD AGREE. CHRISTOPHER

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